

VZCZCXRO9180
RR RUEHCD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM
DE RUEHGD #0095/01 0582305
ZNR UUUUU ZZH
R 272305Z FEB 08
FM AMCONSUL GUADALAJARA
TO RUEHC/SECSTATE WASHDC 0602
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUEHME/AMEMBASSY MEXICO 1810
RUEHGD/AMCONSUL GUADALAJARA 4651

UNCLAS SECTION 01 OF 02 GUADALAJARA 000095

SIPDIS

SIPDIS

E.O. 12958: N/A

TAGS: [EAGR](#) [ETRD](#) [ECON](#) [MX](#)

SUBJECT: HARVEST OF CHANGE: CORN, NAFTA, AND THE CAMPO IN WESTERN MEXICO

REF: Guadalajara 0031

GUADALAJAR 00000095 001.2 OF 002

¶1. Summary: The January 2008 full implementation of NAFTA's provisions on agricultural trade has proceeded smoothly in western Mexico's farm belt. Some observers had expected a strong negative reaction given the large percentage of the population still engaged in minimally productive subsistence farming (principally of corn and beans), but current high corn prices helped soften the impact. Instead, agricultural officials and many producer associations are focusing on the new opportunities presented by NAFTA. Change is coming to the "campo," but it is driven more by social forces such as growing urbanization, an exodus of young people from farming, and the increasing consolidation of agricultural production than by the treaty itself. End Summary.

CORN PRICE RISE CUSHIONS RURAL IMPACT

¶2. All sources agree that the single most important factor in easing rural concerns about NAFTA is the recent increase in the price of corn, which has doubled since this time last year. Although this increase has been unkind to consumers, as evidenced by the large protests in Mexico City in January of 2007 over the price of tortillas, it has been a boon to producers in helping them to be more market-competitive at a critical moment. Most analysts attribute this increase to higher US demand for corn for the production of ethanol.

¶3. The price rise is especially welcome for farmers given the overall low productivity of most Mexican corn producers. In Mexico, one hectare of corn yields an average of 4.5 tons. In the US, the same hectare yields 12 tons. Mexican growers will face great difficulty expanding beyond their internal market until this yield is raised. In fact, most producers continue to be subsistence operations.

GOVERNMENT AID WELL INTENTIONED, BUT OFTEN MISDIRECTED

¶4. The Director of Jalisco's Special Commission on NAFTA contends that most producers are prepared for the NAFTA transition, due to federal efforts over the last decade. While maintaining that systems for direct payments and technical assistance are in place and effective, he did admit that they are not having the full effect desired. Although some have blamed this on corruption, he indicated that bureaucratic malaise was the true culprit. Government payments continue to go out to the same recipients who were registered at the program's inception, regardless of whether these people are still working the same land or are even farming at all. Many

small-scale, marginal producers who would benefit from government aid are not receiving it because their payments are going to their landlords or the land's prior owners.

15. Trade experts at the University of Guadalajara believe that the government has done an adequate job in preparing for full NAFTA implementation, but that the aid programs enacted suffer from a predictable bias in Mexico: too focused on "welfare" for very small subsistence farmers and not enough on promoting efficiency and competitiveness. These analysts believe that the Ministry of Agriculture (known as SAGARPA) would have done better to ensure that aid was targeted towards mid-sized (20-50 hectares) operations that have enough land to be viable but not enough to be fully competitive, on the grounds that large, efficient operations do not need help, and the subsistence operations are so inefficient that any aid to them would, in the long term, be wasted. Consequently, the government is now scrambling to adjust its goals.

NEW FOCUS ON TECHNOLOGY AND EFFICIENCY

16. The new director of SAGARPA's programs in Jalisco, Jose Munoz, is trying to refocus his agency on extension services that will expose producers to new equipment, procedures, and technologies to improve their productivity and competitiveness. Munoz is also emphasizing the importance of a public relations campaign touting the benefits of NAFTA for Mexican agriculture - something he admits SAGARPA should have done sooner and more effectively. This campaign is not just rhetoric; Minister of Agriculture Alberto Cardenas announced a 35 percent boost in federal aid for Jalisco's agriculture sector on February 18. Munoz also wants to work more closely with farmers, rather than going through the traditional rural and campesino organizations as was done in the past. (Some of these groups are reacting negatively to this threat to their customary power, as noted in reftel). Munoz does not conceal his admiration for the productivity and economies of scale of US agribusiness, and he

GUADALAJAR 00000095 002.2 OF 002

expects a similar consolidation of production to occur in Mexico.

THE CORN CONUNDRUM

17. In terms of long-term competitiveness for the Mexican corn sector, all sources agree that land use patterns and the resultant lack of access to capital are problems, for historical reasons dating back to the early 19th Century. Many Mexican farmers continue planting the same crops because it requires too much capital to switch to something more profitable. But land in Mexico is more expensive, relatively speaking, than in the US, and Mexican banks are also much more risk-averse in making farm loans. Most importantly, land tenure is more minutely divided, so it is hard to line up large numbers of willing landholders to sell to an operation that would be able to achieve economies of scale.

18. The Constitutionally-mandated system of communal farms (ejidos) was reformed in the early 1990s, but still creates substantial barriers to development, because any plan to sell or mortgage land must be approved by a majority of the communal landholders. This serves as a further disincentive to expansion and investment that could create larger, more efficient operations that would be able to compete in the NAFTA market.

GENERATIONAL CHANGE ON THE FARM

19. SAGARPA officials believe one reason that so few have taken advantage of liberalizations in property laws is because more and more young people are choosing not to farm, opting instead

to migrate to cities or the United States. This skews the demographic on the farm towards older and more conservative farmers, who are less willing to embrace change or new ideas. The same goes for attempts to form more effective farm partnerships that could help to build economies of scale. The end result, according to SAGARPA's Munoz, will be less domestic production of traditional crops - a wrenching development for a country where corn has been a key element of the culture for centuries. On the positive side, those producers who remain will be much more efficient and productive, and they will be joined by entrepreneurs exploiting more profitable segments of the agricultural sector, such as berries, winter vegetables, ornamental plants, and enhanced food processing.

COMMENT

110. The changes occurring in agriculture in western Mexico's farm belt are far-reaching, and began long before the final implementation of NAFTA. Even if SAGARPA had done a better job of informing both farmers and the public about the implications of the treaty, it would have had little impact on the sociological and economic forces affecting the countryside. It is encouraging that local officials are focused on the benefits and opportunities presented by NAFTA in the agricultural sector, and post's Foreign Commercial Service (FCS) office is heavily promoting the sale of US farm equipment and technology, as well as visits to agricultural trade shows in the United States. The real challenge for the authorities is to find meaningful work for those persons displaced by accelerating change in the countryside.
RAMOTOWSKI